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Directorate-General for Competition, Unit B3

UNION DES INDUSTRIES DE LA FERTILISATION

contribution to the Public Consultation on State Aid:

EU ETS Indirect Cost Compensation

UNION DES INDUSTRIES DE LA FERTILISATION welcomes the possibility to participate in the Public Consultation on State Aid: EU ETS Indirect Cost Compensation.

As Fertilizers Europe, we strongly argue for maintaining the NACE 20.15 activities on the above-mentioned list, maintaining will not create any EU internal distortion, on the contrary removal from the list would create clear competition distortion at the expense of the most electrified players and creating a risk of carbon leakage for them. To avoid carbon leakage by importation of urea, we need to maintain in France and in Europe, the competitiveness of ammonia, nitric acid and ammonium nitrate fertilizer. Exclude NACE CODE 2015 of the list jeopardizes the business model to produce fertilizers in Europe.

- Because in EU ETS the ammonia benchmark is calculated on the total energy consumption (fuel and electricity substitutability) indirect CO₂ emission costs should be treated the same way as direct emission costs. Indeed, ammonia producers based on fuel receive free allocations whereas those having partly electrified their production would bear indirect CO₂ costs. Thus, in absence of this State aid compensation for the cost of CO₂ in electricity, the ETS system would unduly discriminate the most electrified plants, which runs counter to EU climate policy objectives.
- The quantitative data did not take into account economical cycles and will be difficult to pass through the additional costs to its customers.

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- As study by Fertilizers Europe, there is a high degree of variability between undertakings in the ammonia production, contrary to what the consultants' report says. Although on average the electricity consumption of the sector is rather low, some of the plants in the EU use really high amounts of electricity (around to 20% of the total energy use) and for which the indirect CO₂ cost is very important, thus putting undue stress on the competitive position on these plants. Just by correctly evaluating this factor (high variability) would automatically increase the RAG risk profile to a higher score and thus certainly changing the conclusions of the analysis.
- By a detailed analysis we clearly show that the electricity consumption of our sector has been grossly underestimated. Based on three different sources we provide conclusive evidence that the electricity consumption as assumed by the Commission is indeed too low. With the score of the indirect emission intensity significantly above 1.0 kg CO₂/€ GVA, the most stringent criteria initially assumed by DG Competition are fulfilled, namely the indirect emission intensity > 1.0 kg CO₂/€ GVA and the Trade Intensity > 20% (which is 31.8%), resulting in the ICLI score significantly above 0.2, and even potentially twice this value when Climate Strategies data are used as the basis of the calculation.
- In addition to dramatically increasing the risk of carbon leakage, it would also send a very negative signal to fertilizers industries to develop the electrification of process.

The emission factor should continue to be set at regional level, and the CWE zone remains the relevant zone for the western EU Member-States.

As demonstrated by the study carried out in 2019 by Compass Lexecon on behalf of UNIDEN and despite French very low carbon production mix (less than 0.05 tonne of CO₂ per MWh in 2018), the electricity wholesale market price in France incorporates a CO₂ component of around 0.76 tCO₂ / MWh almost equal to its neighboring countries'.

The Compass Lexecon study also concludes that the proxy proposed in the draft (the weighted average of the CO₂ intensity of electricity produced from fossil fuels at national level) is very well adapted at regional level but absolutely not relevant at national level. For example, for France, the proxy will be far lower than the actual CO₂ price impact on electricity wholesale market price (<0.5 t/MWh vs. 0.76 t/MWh).

For France, using the proxy proposed by the EU Commission, the Center-West Europe area is the only relevant geographic scope. The Commission proposal to set a national emission factor based on

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this proxy will lead to widely diverging national emission factors within the CWE area, while the industries located in the region incur the same indirect costs of EU ETS. Different national emission factors while it has been demonstrated a very similar CO₂ impact on power prices within already defined regional zones will create a significant and unacceptable distortion between competing industries in different Member States, penalizing the least emitting countries without any economic justification. The emission factor should continue to be set at regional level, and the CWE zone remains the relevant zone for the western EU Member-States

EU ETS Indirect Cost Compensation is an essential competitiveness measure for fertilizers industries to avoid carbon leakage, reduce the carbon footprint, and to develop the electrification of the fertilizers industries to achieve the target of the Green Deal.

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